

ANNUAL REPORT

ON THE PERFORMANCE OF

KAROO HOOGLAND MUNICIPALITY

FOR THE 2007/08 FINANCIAL YEAR

IN TERMS OF

SECTION 46 OF THE LOCAL GOVERNMENT MUNICIPAL SYSTEMS ACT, 2000

AND

SECTION 121 OF THE MUNICIPAL FINANCIAL MANAGEMENT ACT, 2003

January 2009

ANNUAL REPORT

Ms Juliana K Malho

Mayor for Karoo Hoogland Municipality

It is my pleasure to submit the Annual Report of Karoo Hoogland Municipality for the financial year 1 July 2007 to 30 June 2008.

I am satisfied that the report seeks to portray the activities of the municipality during the financial year under review in terms of legislative requirements.

Louis Nothnagel

Municipal Manager

29 January 2009

ACRONYMS AND ABBREVIATIONS

AG	Auditor General
CDW	Community Development Worker
CFO	Chief Financial Officer
DBSA	Development Bank of South Africa
DH&LG	Department of Housing and Local Government
EPWP	Expanded Public Works Programme
FBS	Free basic services
IDP	Integrated Development Plan
KPA	Key Performance Area
LED	Local Economic Development
LGSETA	Local Government Sector Education and Training Authority
MDB	Municipal Demarcation Board
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MSIG	Municipal Systems Improvement Grant
PMS	Performance Management System
SALGA	South African Local Government Association
SDBIP	Service Delivery Budget Implementation Plan
WSDP	Water Services Development Plan
WSP	Workplace Skills Plan

CONTENTS

Foreword by the Mayor

Overview by the Municipal Manager

CHAPTER 1

OVERVIEW OF THE PERFORMANCE IN PREVIOUS FINANCIAL YEAR

SPECIFIC FACTORS THAT INFLUENCED PERFORMANCE IN YEAR UNDER REVIEW

CHAPTER 2

MUNICIPAL TRANSFORMATION AND ORGANISATIONAL DEVELOPMENT - KPA 1

CHAPTER 3

BASIC SERVICE DELIVERY – KPA 2

CHAPTER 4

LOCAL ECONOMIC DEVELOPMENT – KPA 3

CHAPTER 5

FINANCIAL VIABILITY AND MANAGEMENT – KPA 4

CHAPTER 6

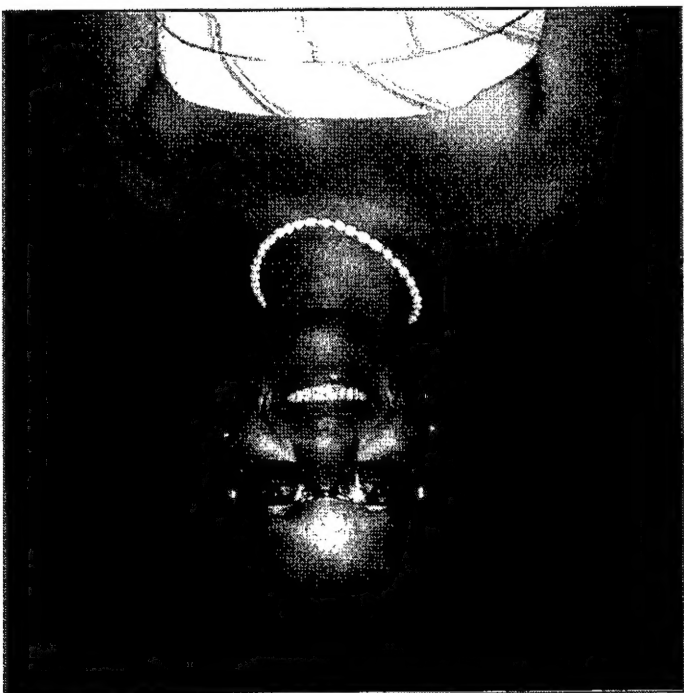
GOOD GOVERNANCE AND PUBLIC PARTICIPATION – KPA 5

CHAPTER 7

REMEDIAL ACTION

FOREWORD BY THE MAYOR

In days to come I will remember the 2007/08 financial year as the year in which KHM in all probability experienced it's most negative times, especially during the first eight months. During this period Council was confronted with serious matters such as the suspension of 2 senior employees by the Municipal Manager (a seconded official of the DH&LG) and soon afterwards, reports of alleged fraud and corruption by the Municipal Manager and consultants who has been awarded a contract by the MM.



This resulted in the termination of the services of the MM, his PA and the consulting firm during December 2007. The services of another temporary employee who acted as MM and CFO from December 2007 was also terminated at the end of February 2008. However, I am convinced that we have stood up and are now heading in the right direction. In March 2008 we appointed the current Municipal Manager (acting) and Council embarked upon a recovery plan. The results of this will however only be evident at the end of the 2008/09 year but I can without doubt report that good progress has been made .

JULIANA K. MALHO (MAYOR)

OVERVIEW BY THE MUNICIPAL MANAGER

It is not all that easy to compile a comprehensive report like this in terms of all the legislative requirements if one has not been directly involved in the management of the municipality for the biggest part of the period under review.

This is not an excuse at all, it is merely the fact of the matter. I was suspended by the former Municipal Manager in November 2007 and only returned back to work in February 2008, whereafter I was appointed as acting MM with effect from 1 March 2008.

Prior to my appointment as MM, the Head : Infrastructure also left the services of KHM on 31 December 2007 and the temporary employee who acted as MM and CFO from December 2007 left the service on 29 February 2008. The reality of this situation was that the Municipality had no Departmental Heads.

In the 4 remaining months of the financial year I mainly focused on identifying all the shortcomings, establishing proper staff structures and compiling a Recovery Plan of action in conjunction with Council. I will elaborate on this in Chapter 7 (Remedial Action).

We face challenges of great magnitude but I firmly believe that we are on track in our endeavours towards meeting the strategic objectives of transformation, good governance , development and financial viability.

I am also satisfied that this report is a true and just reflection of what really happened in KHM in 2007/08.

Louis Nothnagel

CHAPTER 1

OVERVIEW OF THE PERFORMANCE IN PREVIOUS FINANCIAL

YEAR 2006/07

The most objective evaluation tool to determine the performance of KHM during 2006/07 is the

“CONSOLIDATED REPORT ON THE PERFORMANCE OF NORTHERN CAPE MUNICIPALITIES”

issued by the MEC of Housing and Local Government.

The most important outcomes with regard to KHM were :

KHM scored poorly and its ranking worsened significantly.

The AG expressed a disclaimer opinion.

SPECIFIC FACTORS THAT INFLUENCED PERFORMANCE IN YEAR

UNDER REVIEW

A Provincial official was seconded to KHM to act as Municipal Manager with effect from 1 July 2006 (previous financial year)

During the 2006/07 financial year he appointed the firm Munifin as consultants to assist him with his managerial responsibilities. This appointment was without any tender procedures and the 2006/7 MSIG allocation of R 734 000 was used to remunerate the consultants for certain tasks they had to perform.

The main tasks of the consultants were inter alia :

- To upgrade the computer system
- To rectify mistakes on municipal accounts
- To implement credit control measures
- To do job descriptions for all employees
- To revise the IDP
- To compile and implement a SDBIP
- To produce and implement a wide range of financial policies

It is important to mention the appointment of the consultants by the MM because the poor performance of both parties during the 2006/07 financial year had a direct impact on the performance of KHM in 2007/08.

Although very few results were achieved in 2006/07 , the MM once again appointed the same consultants to continue their work during 2007/08. During this time 2 senior officials of KHM became very suspicious of the large amounts of money which were paid to the consultants without proper proof of results and they confronted the former MM.

The 2 officials, who were also signatories to approve payments, were then suddenly suspended by the MM in November 2007. The Mayor and Council were informed by the 2 officials that they have proof of alleged fraud and maladministration by the MM and Consultants. They also proceeded with criminal charges against both the MM and Consultants.

The Mayor reported the situation to the MEC and he also ordered an investigation.

In mid December 2007 the labour force of the municipality embarked upon strike actions because 2 of their members were suspended and because of the alleged maladministration.

At the end of December 2007 Council terminated the services of the MM, his PA and the firm Munifin.

The circumstances in Karoo Hoogland during 2007/08 has most definitely not been conducive for sound local government and had a direct impact on the (under) performance of the municipality.

The under performance is clearly outlined in the report of the AG in Chapter 5.

The alleged maladministration can unfortunately not be discussed in more detail as the matter is still sub-judice.

CHAPTER 2

MUNICIPAL TRANSFORMATION AND ORGANISATIONAL DEVELOPMENT

CAPACITY TO PERFORM MUNICIPALITY FUNCTIONS

The Municipal Demarcation Board annually undertakes capacity assessments of all local authorities in South Africa and makes recommendations to the Provincial MEC of Local Government with regard to the capacity of each municipality to perform its functions in terms of the Municipal Structures Act.

The powers and functions of KHM were not adjusted for the year under review.

The municipality still performs 21 functions which is more than the average of 20 in our province.

STAFFING AND MANAGEMENT PROFILE

Municipal Manager	Acting
Head Corporate Services	Vacant
Chief Financial Officer	Vacant
Head Infrastructure Services	Vacant

PERFORMANCE AGREEMENTS

None

SKILLS DEVELOPMENT AND TRAINING

- The Workplace Skills Plan for 2008/09 was submitted timeously before 30.6.08
- No official LGSETA training has been undertaken by officials or councillors.

INTERVENTIONS

- A DBSA official has been deployed at KHM through the Siyenza Manje Program since March 2008 to provide financial expertise.
- During April 2008 the assistance of Provincial Treasury and Local Government was sought to help with the recovery initiatives of Council.

CHAPTER 3

BASIC SERVICE DELIVERY

ELECTRICITY

The municipality is the service provider in part of Williston and in the whole of Fraserburg.

Eskom is the service provider in the other part of Williston and the town of Sutherland.

In the year under review the following has been achieved :

In Williston the total reticulation network was upgraded and all overhead connections were replaced with cable connections. All residential properties have been provided with prepaid meters.

In Fraserburg all residential properties have been provided with prepaid meters.

WATER

A new 1 megalitre reservoir was built in Williston to increase the storage capacity for the town. New bore holes have been exploited and the water reticulation system was computerised.

SANITATION

All buckets in KHM have been eradicated

HOUSING

A new housing project has been approved for Fraserburg .

BASIC SERVICES

All 2340 households in KHM have access to basic services.

FREE BASIC SERVICES

An Indigent Policy is in place and 960 registered indigent households receive free basic services.

CHAPTER 4

LOCAL ECONOMIC DEVELOPMENT

During the 2007/08 financial year very little was done to promote economical development.

IDP

The IDP processes have been neglected to such an extent that the municipality received a very poor rating by the Provincial assessment team.

LED

There is no LED strategy or policy in place to enhance economic development.

EPWP

2 Projects in KHM created jobs for 120 people for a period of 2 months.

CHAPTER 5

FINANCIAL VIABILITY AND MANAGEMENT

This Key Performance Area is without any doubt the most import one, since no business or organization can fulfill its obligations without financial resources and sound financial management.

The performance of Karoo Hoogland during the year under review must be benchmarked against the performance during the previous financial year.

For this purpose one must again refer to the outcomes of the "Consolidated report on the performance of Northern Cape municipalities 2006/07"

The following is worth mentioning :

The financial statements were not submitted timeously in terms of legal frameworks.

Audit outcome : a disclaimer opinion.

The municipality is one of those who were financially qualified.

Concerns were raised regarding lack of internal controls and capacity and skills and the high risk of maladministration and misappropriation of funds.

Outstanding debts in excess of R 10 million.

2006/07 was ended with a deficit of R 1.5 million.

Report of the AG on the financial statements and performance information of Karoo Hoogland Municipality for the year ended 30 June 2008.

As in the preceding year (2006/07) the report of the AG once again does not reflect a very positive image of KHM.

In almost all the following instances :

- COMMITMENTS
- CASH
- EMPLOYEE COST
- LEASES
- REVENUE
- EXPENDITURE
- CREDITORS
- FIXED ASSETS
- RESERVES
- VAT

the AG has commented that there are no proper systems and controls in place.

In his comments in paragraphs 34 – 60 of his report, the AG outlined the fact that the Accounting Officer did not perform his functions and or failed to adhere to the legislative requirements in terms of the Municipal Financial Management Act and the Municipal Systems Act.

In this regard I can only refer back to the comments and information contained in **CHAPTER 1** with regard to the performance in the previous year and specifically the factors that influenced performance in the year under review.

The Financial Statements and AG Report are enclosed in terms of Section 121 (3) of the MFMA.

CHAPTER 6

GOOD GOVERNANCE AND PUBLIC PARTICIPATION

WARD COMMITTEES

All 4 wards have ward committees and although they are functional, it is doubtful whether they really play a constructive roll in local government affairs.

PUBLIC PARTICIPATION

The public had a very negative opinion of the municipality and in both Williston and Sutherland, ratepayers have organized themselves and started with a payment boycott. This has lasted for both the 2006/07 and 2007/08 financial years.

The negative opinion resulted in poor participation in municipal affairs.

GOVERNANCE PERFORMANCE

The report of the Auditor General speaks for itself and it is evident that KHM did not perform well.

CHAPTER 7

REMEDIAL ACTION

In the latter part of the 2007/08 financial year it was without doubt evident that many things were wrong in our municipality and that immediate remedial action was needed.

Interventions had to be put in place to address the wide range of challenges. The following strategic objectives were identified as priorities for 2008/09 :

A. A RECOVERY PLAN HAD TO BE IMPLEMENTED

B. HANDS ON SUPPORT FROM PROVINCIAL GOVERNMENT MUST BE OBTAINED

A. RECOVERY PLAN

During March and April 2008 the Council committed itself and held worksessions and developed a Recovery Plan with immediate, medium term and long term objectives.

The following goals were set :

- The computer system had to be upgraded in order to generate Section 71 reports as required by legislation.
- Financial staff had to be trained properly.
- All mistakes on municipal rates and taxes bills had to be rectified.
- The credit control policy had to be revised.
- A tariff structure policy had to be adopted.
- A rates policy had to be adopted.
- Proper credit control measures had to be implemented.
- The payment boycott had to be ended.
- Proper IDP processes had to be put in place.
- A service delivery and budget implementation plan had to be compiled.

B. HANDS ON SUPPORT FROM PROVINCIAL GOVERNMENT

The expertise of both Provincial Treasury and Housing and Local Government were sought to assist with the recovery initiatives.
(Both departments granted immediate help)

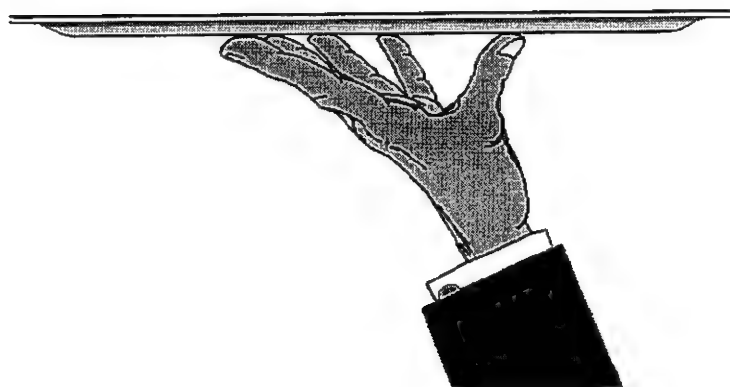
CONCLUSION

The remedial actions and interventions are on going and the impact and results will be demonstrated in the next annual report.

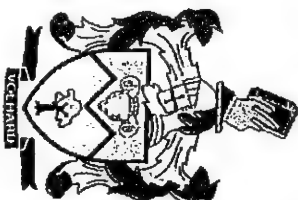
FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2008



KAROO HOOGLAND MUNICIPALITY



FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

INDEX

1.	General Information	Page G1 - G5
2.	Preamble	Page P-1
3.	Financial Manager's Report	Page FM-1 to FM-16
4.	Accounting Policy	Page AP-1 to AP-8
5.	Balance Sheet	Page S-1
6.	Income Statement	Page S-2
7.	Cash Flow Statement	Page S-3
8.	Notes to the Financial Statements	Page N1 - N33
	Appendix A – Accumulated Funds, Trust Funds, Reserves and Provisions	Page A-1
	Appendix B – External Loans and Internal Funds	Page A-2
	Appendix C - Analysis of Assets	Page A-3
	Appendix D – Analysis of Operating Income and Expenditure for the ending 30 June 2008	Page A-4
	Appendix E – Detailed Income Statement for the year ending 30 June 2008	Page A-5
	Appendix F – Statistical Information	Page ST-1

GENERAL INFORMATION

I. GRADING

Grade I - Category B.

Council is accorded a Grade I under a Category B local authority.

II. AUDITORS

External Auditors

The Office of the Auditor - General
Private Bag X5013
KIMBERLEY

III. BANKERS

ABSA Bank
Fraserburg

IV. REGISTERED OFFICE

Herbs Street
Williston
8920

Private Bag x2
Williston
8920

V. GENERAL ACTIVITIES

Council undertakes the spectrum of a Category B municipality activities allocated by legislation.

VI. COUNCILLORS

Council's structure is based on the Executive Committee System, Incorporating the following area:

- Williston
- Fraserburg
- Sutherland

7.1 Mayor of Karoo Hoogland Municipality:

J.K. Malho

7.2 Councilors of Karoo Hoogland Municipality

JJ van der Colff	-	Finances
MM Louw	-	Economics
SJC Theron	-	Agriculture
JJJ Storm	-	Infrastructure and Housing
MM van Wyk	-	Public Administration
JJ de Wee	-	Public Works and Roads

8. MANAGEMENT STRUCTURE

Council's senior management structure consists of the Municipal Manager, heads of xxx main department. The office of the Municipal Manager includes management functions pertaining to municipal systems improvement and performance management functions.

Acting-Municipal Manager
Mr. L Nothnagel

Manager: Corporate Services
Mr. L Nothnagel

Acting-Manager: Finance
Mr. J van Sckalkwyk

Manager Infrastructure:
Mr. GJ van Sckalkwyk

CERTIFYING OF FINANCIAL STATEMENTS

9.

I am responsible for the preparation of these financial statements, which are set out on pages S-1 to A-6 in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councilors as disclosed in note 19 of the financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

L Nothnagel

Acting-Municipal Manager

PREAMBLE / VOORWOORD

For the ease of audit purposes the financial statements contained in this document has been compiled in English. However, in this municipality Afrikaans is the language medium of the majority of people and I will take the liberty to proceed with this preamble in Afrikaans.

Die 2007/08 boekjaar, met spesifieke verwysing na die eerste 6 maande, was allermens 'n periode met enige noemenswaardige prestasies.

Dit was eerder 'n tydperk waartydens Karoo Hoogland met van sy grootste krississe nog, sou worstel. Die probleme het gemanifesteer in 'n omgewing gekenmerk deur onstabiliteit in vele opsigte en ek verwys na die volgende :

'n Verbruikersboikot in die betaling van belasting en dienstegelde in Williston en Sutherland het na 18 maande sy tol begin eis.

Die kultuur van wanbetaling het voortgesleep.

Klagtes van beweerde finansiële wanbestuur het bekend geraak.

Senior poste is vakant gelaat.

Karoo Hoogland het ernstige kontantvloei probleme ervaar.

Verouderde rekenaartoerusting het ernstige administratiewe gebreke tot gevolg gehad.

Die omvang van bogenoemde het my genoodsaak om ingrypende stappe te neem en die Provinsiale Departemente van Tesourie en Plaaslike Regering asook die DBSA is om hulp genader. Menslike hulpbronne is ook intern reorganiseer om kapasiteitsprobleme aan te spreek.

Ek kan vandag aan die einde van die boekjaar met versigtige oortuiging rapporteer dat goeie vordering gemaak is met die herstelplanne binne ons Munisipaliteit. Ons is weliswaar nog nie waar ons moet wees nie, maar die eerste tree in die regte rigting is gegee.

My kommentaar in hierdie voorwoord wyk dalk af van die tradisionele, maar dit is nodig dat omstandighede openlik en eerlik verwoord word.

My dank aan die gemelde provinsiale departemente, mede raadslede en die Munisipale Bestuurder met sy personeel wat my ondersteun.

J.K. Malho (me)
BURGEMEESTER

CHIEF FINANCIAL OFFICER REPORT

INTRODUCTION

In terms of Section 122 of the Municipal Financial Management Act, Act 56 of 2003, the financial statements for the period ending 30 June 2008 is hereby being presented. The financial statements for the period ending 30 June 2008 is presented in accordance with the Institute of Municipal Financial Officers User Code for the Accounting of Local Government (1992) and the Report on the Standardizing of Financial Statements of Local Government (4th edition, as amended) as approved by the Auditor General.

1. Financial results for the 2008 Financial Year

With the high poverty levels, a culture of non-payment, financial pressure is still being applied on Karoo Hoogland Municipality. The Council, the community and staff must act in a responsible manner to ensure that a healthy and sustainable economical climate prevails.

a. Constitutional and Legislative Responsibility

Statutory it has been entrusted upon councillors and officials to manage the assets and resources of the municipality in a responsible and efficient manner. All revenue that is due to council must be collected. All assets must be utilised and be maintained in such a manner to ensure that optimum service level benefits to the community is upheld.

b. Warning indicators

Two main indicators in the balance sheet that indicates that Karoo Hoogland Municipality is under enormous pressure with respect to cash flow are the following:

<i>Debtors</i>	<i>Actual 2007</i>	<i>Actual 2008</i>	<i>Variance Actual</i>
Debit	10,909,740	11,069,597	159,857
Less: Bad Debit	7,459,974	3,491,782	3,968,192
	3,449,766	7,577,815	4,128,049

What is of great concern is that this debit increase, has its origin from the previously disadvantaged areas, especially when one considers that the majority of registered indigent households come from these areas, who have already received 100% subsidy on services.

<i>Creditors</i>	<i>Actual 2007 R</i>	<i>Actual 2008 R</i>	<i>Variance Actual R</i>
	5,257,247	4,096,493	1,160,754

On numerous occasions the municipality had to pay interest, because of late payments to creditors due to a lack of cash availability. This interest paid is regarded as fruitless.

2. Operating Results

Detail of the operating results of income and expenditure per department is shown in Appendix D. A general summary is shown below:

2.1 Community Services:

<i>Revenue & Expenditure</i>	<i>Actual 2007 R</i>	<i>Actual 2008 R</i>	<i>Variance 2007/08</i>
Revenue	7,069,761	8,724,234	19%
Expenditure	8,847,217	13,748,476	64%
SURPLUS / (DEFICIT)	(1,777,456)	(5,024,242)	

Community Services consist of council and general services activities and reflects a net deficit of (R5, 024,242) compared to the approved deficit of (R2,014,916), this is mainly attributed to equitable share allocations.

2.2 Subsidized Services:

Revenue & Expenditure	Actual 2007	Actual 2008	Variance 2007/08
Revenue	56,215	99,808	56%
Expenditure	1,250,305	1,442,650	14%
SURPLUS / (DEFICIT)	(1,194,090)	(1,342,842)	

This subsidized service reflects a net deficit of (R 1,342,842) compared to the approved surplus of R 1,362,524; this is mainly attributed to the

2.3 Economical Services:

Revenue & Expenditure	Actual 2007	Actual 2008	Variance 2007/08
Revenue	2,131,730	2,244,731	5%
Expenditure	1,849,729	2,042,707	10%
SURPLUS / (DEFICIT)	282,001	202,024	

This economical service reflects a net surplus of R 202,024 compared to the approved surplus of R 694,425. Revenue exceeded budget expectations as well a staff compliant expenditure savings.

2.4 Housing:

Revenue & Expenditure	Actual 2007	Actual 2008	Variance 2007/08
Revenue	0	0	0%
Expenditure	0	0	0%
SURPLUS / (DEFICIT)	0	0	

FM-3

2.5 Trading Services:

<i>Revenue & Expenditure</i>	<i>Actual 2007 R</i>	<i>Actual 2008 R</i>	<i>Variance 2007/08 %</i>
Revenue	4,877,861	3,644,717	33%
Expenditure	3,605,647	4,793,247	25%
SURPLUS / (DEFICIT)	1,272,214	(1,148,530)	

This trading service reflects a net deficit of (R1, 148,530) compared to the approved surplus of R 2,476,155. Water losses are a major challenge that must be addressed by all stakeholders concerned and payment cultures.

3. Appropriations

Appropriations for the year amount to a net inflow of R 1,630,946.

4. Post-balance Sheet Events

No other significant events have occurred between the balance sheet date and the time of issuing this report.

5.1 Capital Expenditure

The acquiring of fixed asset for the 2007/2008 financial year amounted to R 1,918,243.00. The following is a summary thereof:

<i>Capital Expenditure</i>	<i>Actual 2008 R</i>	<i>Budget 2008 R</i>	<i>Variance Actual / Budget %</i>	<i>Actual 2007 R</i>
Infrastructure	1,061,338	0	1%	9,138,568
Community Assets	0	0	1%	
Other Assets	856,95	0	18%	
Housing Rental Stock	0	0		0
TOTAL CAPITAL EXPENDITURE:	1,918,243	0	0%	9,138,568

5.2 Financing

<i>Financing of Fixed Assets</i>	<i>Actual 2008 R</i>	<i>Budget 2008 R</i>	<i>Variance Actual / Budget %</i>	<i>Actual 2007 R</i>
Government Grants & Subsidies	1,543,116	0	2%	5,764,451
External Loans	375,127	0	0	3,374,117
Other Revenue (Own Funding)	0	0	0%	0
TOTAL FUNDING OF CAPITAL EXPENDITURE:	1,918,243	0	0%	9,138,568

6. External Loans

External loans outstanding as at 30 June 2008 amounted to R 3,694,655 as set out in Appendix B.

7. Cash and Investments

Council's cash and investments to the amount of R 613,237 reflect a increase of R 40,660 or 7% compared to the previous financial year.

8. Outstanding Debtors

Overall debtors including the short-term portion of long-term debts reflect an decrease of R 4,128,050 compared to the previous financial year. The decrease can mainly be attributed to the provision for bad debt, high poverty levels of the community, and the in ability of Council to restrict consumers effectively and a culture of non-payment.

9. Outstanding Creditors

Increase of outstanding creditors to the amount of R 1,160,754 and can mainly be attributed to the cash flow constraints that Council is experiencing due to poor payment rates of consumer accounts.

Unspent government grants reflect an increase of R 927, 271 mainly due to challenges with the implementation of certain projects.

10. Expression of Appreciation

I hereby wish to thank the Mayor, the Speaker, Councillors, the Municipal Manager, Heads of Departments and staff for their cooperation during the financial year.

A special word of appreciation to the staff involved with the compilation of the financial statements for their dedication and efforts, as well as to all the staff of the Financial Department for their support and commitment in the operations of the department.

Acting-Financial Manager

ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention, except for the revaluation of land and buildings, which are carried at fair value.

IMFO

The financial statements for the period ending 30 June 2008 is presented in accordance with the Institute of Municipal Financial Officers User Code for the Accounting of Local Government (1992) and the Report on the Standardizing of Financial Statements of Local Government (4th edition, as amended) as approved by the Auditor General.

These accounting policies are consistent with those of the previous financial year without any exceptions.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

- a. Income is recognised when it is measurable and collectable. Direct income i.e. traffic fines and licensing is recognised when received.
- b. Expenditure is recognised and recorded in the period that it has been incurred.

2. PRESENTATION CURRENCY

Amounts reflected in the financial statements are in South African Rand and at actual values. No financial values are given in an abbreviated display format. No foreign exchange transactions are included in the statements.

3. CONSOLIDATING

The balance sheet represents the financial position of the Council and depicts the financial result of the various services i.e. Rates and General Services, Housing Services and Trade Services at the date.

4. *PROPERTY, PLANT AND EQUIPMENT*

4.1 Property, plant and equipment, is stated at:

- historical cost; or
- a value based on market value

4.2 The balance against the heading "Loans Redeemed and other Capital Receipts" in the notes to the financial statements is equivalent to the provision for depreciation. Property, Plant and Equipment is financed as follows:

- From revenue, where the total expense of the asset is debited against the income statement.
- Donations and Grants
- Internal and external loans, where the interest and redemption has been expensed in the income statement. Loans are redeemed over the useful life of the property, plant and equipment.

4.3 Proceeds from the sale of property, plant and equipment are invested in the Revolving Fund for future capital formation.

5. *INVESTMENTS*

Investments are stated at cost and made according to Council's approved policy at accredited banking institutions determined by the Reserve Bank of South Africa.

6. *INVENTORIES*

Stores and materials held by Council are solely for use in the operations and have been transferred to the relevant accounts. The balance sheet value of stores and materials is determined by physical count and calculated at applicable cost.

7. *TRADE CREDITORS*

Trade creditors are stated at their nominal value.

REVENUE RECOGNITION

8

8.1 Service charges are based on consumption. Meters are read on a monthly basis and are recognized as revenue when invoiced.

8.2 Interest and rentals are recognized on a time proportion basis.

8.3 Revenue for agency services is recognized on a monthly basis in accordance with the agency agreement.

8.4 Other revenue is recognized when all conditions associated with the service rendered have been met.

8.5 Property Rates is recognized by calculating both the site valuation and the improvement valuation. Subsidies are granted to pensioners and indigents in conjunction to the Councils policy.

FUNDS AND RESERVES

9

9.1 Revolving Fund
For the internal financing of property, plant and equipment through advances and loan services

9.2 The Council can establish other funds to make provision for unforeseen expenses i.e. leave payments; maintenance and repairs expenditure and a tariff stabilization fund.

SURPLUSES AND DEFICITS: TRADE SERVICES

10.

Surpluses or deficits that are realized from the Trade Services are transferred to the Rates and General Account.

DEFERRED CHARGES

11.

11.1 Cost incurred for acquisition of loans is capitalized and are expensed in the income statement over the period of the loan.

11.2 Loans outstanding after property, plant and equipment have been written-off are expensed against the income statement.

12. RETIREMENT BENEFITS

Karoo Hoogland Municipality and its workers contribute to the Cape Joint Retirement Fund or the Cape Joint Pension Fund, SAMWU Provident or SALA Pension Fund. Karoo Hoogland Municipality and its Councilors contribute to above-mentioned funds if so chosen, where retirement benefits to councilors are provided.

The retirement benefit plan is subject to the Pension Fund Act, 1956, with the pension calculated on the final contributions made. Current contributions are expensed in the income statement on the basis of service cost.

Actuary valuations are executed on a regular basis. It is unknown when the last actuary valuation has been done.

KAROO HOOGLAND MUNICIPALITY
BALANCE SHEET AT 30 JUNE 2008

S-1

CAPITAL EMPLOYED		FUNDS AND RESERVES		UNAPPROPRIATED SURPLUS / (DEFICIT)		TRUST FUNDS		LONG-TERM LIABILITIES		CONSUMER DEPOSITS		EMPLOYMENT OF CAPITAL		PROPERTY, PLANT AND EQUIPMENT		INVESTMENTS		LONGTERM DEBTORS		DEFERRED CHARGES		NET CURRENT ASSETS		CURRENT ASSET		LESS: CURRENT LIABILITIES		Provisions		Creditors		Current portion of long-term creditors		Bank overdraft												
2008	R	3,050,009	3,000,061	49,948	(4,160,194)	(1,110,185)	116,656	3,694,655	144,612	2,845,738	4,784,933	0	0	0	7	5	4	3	4	2	1	2	8	9	10	11	12	10	2,845,738	543,829	0	5,257,247	336,034	6,137,110	4,197,915	0	3,449,766	500	613,237	134,412	4,509,867	314,692	0	4,096,493	98,692	8,230,374
2007	R	3,073,594	3,027,194	46,400	1,522,450	4,596,044	111,334	3,387,983	135,013	8,230,374	4,478,263	0	0	0								3,752,111	8,261,978	0	7,577,816	500	572,577	111,085	4,509,867	314,692	0	4,096,493	98,692	8,230,374												

Note

2008

2007

**KAROO HOOGLAND MUNICIPALITY
INCOME STATEMENT FOR THE YEAR ENDED 30th JUNE 2008**

[illegible]

KAROO HOOGLAND MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

CASH FLOW FROM OPERATING ACTIVITIES	Note	2008	2007
Cash generated from/ (utilized in)/ operations	18	(5,282,361)	(2,552,132)
Interest received	15	48,318	74,725
(Increase)/decrease in working capital	19	2,967,296	(1,774,506)
		<u>(2,266,747)</u>	<u>(4,251,913)</u>
<i>Less: External interest paid</i>		<u>(190,059)</u>	<u>(90,296)</u>
Cash available from operations	15	<u>(2,456,806)</u>	<u>(4,342,209)</u>
Cash contributions from the public and government		4,109,037	9,561,381
Net proceeding from the sale of assets		0	0
		<u>1,652,231</u>	<u>5,219,172</u>
CASH UTILISED FOR INVESTMENT OPERATION			
Investment in fixed assets		<u>(1,918,243)</u>	<u>(9,138,568)</u>
Net cash flow	Appendix C	<u>(266,012)</u>	<u>(3,919,396)</u>
NET CASH FROM FINANCING ACTIVITIES			
Increase/(decrease) in short-term loans	20	306,672	3,300,159
(Increase)/decrease in cash investment	21	(40,660)	629,237
(Increase)/decrease in cash	22	0	0
		<u>266,012</u>	<u>3,919,396</u>
Net cash		<u>266,012</u>	<u>3,919,396</u>

KAROO HOOGLAND MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2008

1. STATUTORY FUNDS

	2008 R	2007 R
Revolving Fund	2,968,719	2,964,858
Civil Defence Fund	26,707	44,507
Dog Tax Fund	4,635	17,829
Total	<u>3,000,061</u>	<u>3,027,194</u>

(Refer to appendix A for more detail)

2. RESERVES

	2008 R	2007 R
General Maintenance Reserve	29,303	27,206
Sport Fund	20,645	19,194
Total	<u>49,948</u>	<u>46,400</u>

(Refer to appendix A for more detail)

4. TRUST FUNDS

	2008 R	2007 R
Housing Funds	86,931	80,557
Integrated Development Fund	29,725	30,777
Total	<u>116,656</u>	<u>111,334</u>

(Refer to appendix A for more detail)

KAROO HOOGLAND MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2008

5. CONSUMER DEPOSITS

	2008	2007
Deposits: Electricity and Water	142,813	135,013
Total	<u>142,813</u>	<u>135,013</u>
No guarantee are held in place of any consumer deposit		

6. FIXED ASSETS

	2008	2007
Fixed assets at the beginning of the year	18,139,341	9,000,773
Capital expenditure during the year	1,918,243	9,138,568
	<u>20,057,584</u>	<u>18,139,341</u>
Less: assets written-off, redeemed or	0	0
Total fixed assets	<u>20,057,584</u>	<u>18,139,341</u>
Less: Loans redeemed and other capital cost	<u>15,272,651</u>	<u>13,661,079</u>
	<u>4,784,933</u>	<u>4,478,263</u>
(Refer to appendix C and paragraph of the Treasurers Report for more detail)		

6. INVESTMENTS

	2008	2007
Cheque Account Trust Fund – ABSA – IDP	29,725	30,777
Call deposit - ABSA	583,512	541,800
Total	<u>613,237</u>	<u>572,577</u>

Circular no. C/46/1994 of 26 October 1994 issues by the Provincial Administration, Prescribes that municipalities must invest funds with approved financial institutions Where funds are not immediately required. The investment period must be such that no penalty cost is levied on the investment concerned.

KAROO HOOGLAND MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2008

7. LONG-TERM DEBTORS

	2008 R	2007 R
Other loans	0	0
Staff Vehicle Loans	0	0
Less: Short-term portion	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>

8. INVENTORY

	2008 R	2007 R
Consumer inventory	0	0
	<u>0</u>	<u>0</u>

Inventory represents completed products

9. DEBITORS

	2008 R	2007 R
Current debtors (consumers and other)	10,824,637	9,871,626
VAT	34,927	1,016,807
Payments in advance	50,176	181,164
	<u>10,909,740</u>	<u>11,069,597</u>
Less: Provisions for bad-debt	(7,459,974)	(3,491,782)
	<u>3,449,766</u>	<u>7,577,815</u>

KAROO HOOGLAND MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2008

7. BANK

The municipality has the following bank accounts:

Primary bank account
Fraserburg
ABSA – 2490000065

Cash book balance at beginning of year

(98,682)

366,646

Cash book balance at the end of year

(543,829)

(98,682)

Bank statement balance at the end of year

(543,829)

(98,682)

Sutherland
Standard Bank – 083172572

Cash book balance at beginning of year

10,122

23,841

Cash book balance at the end of year

0

10,122

Bank statement balance at the end of year

0

10,122

Williston
Standard Bank – 083212442

Cash book balance at beginning of year

100,963

174,264

Cash book balance at the end of year

134,912

100,963

Bank statement balance at the end of year

134,412

103,173

11. PROVISIONS

Leave Fund

(Refer to appendix A for detail)

N-4

2008
R

336,034

336,034

2007
R

314,692

314,692

KAROO HOOGLAND MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2008

12. CREDITORS

	2008 R	2007 R
Trade creditors	2,729,029	1,557,080
Receipts made in advance		1,230,283
VAT	1,183,400	976,867
Payment made in advance – Debtors	417,547	0
Salaries	0	332,263
Unspent Grants	927,271	0
	<u>5,257,247</u>	<u>4,096,493</u>

13. COUNCIL REMUNERATION

	2008 R	2007 R
Mayors allowance	289,524	270,260
Deputy Mayor and Councilors allowance	547,200	512,525
	<u>836,724</u>	<u>782,785</u>

14. AUDIT FEES

	2008 R	2007 R
Audit fees – audit services	<u>943,546</u>	<u>155,530</u>
Levies paid during the year	<u>119,290</u>	<u>90,572</u>

15. FINANCING TRANSACTIONS

	2008 R	2007 R
Total external interest received or paid:		
Interest received	48,318	74,725
Interest paid	190,059	90,296
Capital cost expensed in the income statement:		
Interest and redemption:		
External	258,540	103,635
Internal	0	247,262
Other capital cost	0	0
Deferred cost written-off	0	0
	<u>258,540</u>	<u>350,897</u>

16. PROPERTY RATES

[illegible]

The valuation of improvements and sites must be valuated every four year. The effective date of last general valuation was 1 July 1990. The base rate was 0.05082 cent in the rand on all valable property. Apart from the statutory reduction of 20% on government property is no other reductions on rates granted.

17. APPROPRIATIONS

	2007	R
Appropriation account		
Unappropriated surplus at the beginning of the year	1,438,512	
Operating surplus/ (deficit) for the year	(1,417,331)	
Appropriation for the year:		
Provision for bad debt	0	
Other appropriations	1,501,269	
Unappropriated deficit at the end of the year	<u>(1,522,450)</u>	
	<u>1,630,946</u>	
	(4,160,193)	
	<u>R 2008</u>	
Operations:		
Capital expenditure	258,540	
(analysis of Appendix D)	<u>192,973</u>	
Contributions to:		
Revolving Fund	0	
Equitable Share	0	
Dog Tax Fund	0	
Leave-Fund	0	
	<u>0</u>	
	<u>R 2007</u>	

KAROO HOOGLAND MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2008

18. CASH GENERATED BY OPERATIONS

	2008 R	2007 R
Surplus/ (deficit) for the year	(7,313,589)	(1,417,331)
Appropriations i.e. previous year operations	1,630,946	(1,501,269)
Appropriation expensed against income:		
Revolving Fund	0	0
Provisions and reserves	0	0
Fixed assets	0	0
Capital Cost:	258,541	350,897
Interest paid and redeemed:		
Internal funds (Appendix A analysis)	0	247,262
External loans	258,541	103,635
Contributions from Income	0	0
Investment income	(48,318)	(74,725)
Interest paid	190,059	90,296
Non-operational income / (expenditure)	0	0
	<u>(5,282,361)</u>	<u>(2,552,132)</u>

19. (INCREASE)/DECREASE IN OPERATING CAPITAL

	2008 R	2007 R
(Increase)/decrease in inventory	0	0
(Increase)/decrease in debtors	4,128,050	(2,667,141)
(Increase)/decrease in creditors provision	(1,160,754)	892,635
	<u>2,967,296</u>	<u>(1,774,506)</u>

20. INCREASE/ (DECREASE) IN SHORT-TERM LOANS (EXTERNAL)

	2008	2007
Loans raised	375,127	3,374,117
Loans redeemed	(68,455)	(73,958)
	<u>306,672</u>	<u>3,300,159</u>

21. (INCREASE)/DECREASE IN EXTERNAL INVESTMENTS

	2008	2007
Investments realized	<u>(40,660)</u>	<u>619,237</u>

22. (INCREASE)/DECREASE IN CASH ON HAND

	2008	2007
Cash balance at the beginning of the year	500	500
Less: Cash balance at the end of the year	<u>(500)</u>	<u>(500)</u>
	<u>0</u>	<u>0</u>

KAROO HOOGLAND MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2008

23. RETIREMENT BENEFITS

All Councillors and employees belong to retirement funds. These funds are subject to an actuarial valuation. These valuations indicate that the funds are in a sound financial position.

An amount of R 578,971 was contributed by Council in respect of councilor and employees retirement funding. These contributions have been expensed.

Certain employees were historically prevented from joining Council's retirement funds. In terms of Council's employment policies, an obligation to provide pensions exists. These amounts are expensed on payment.

24. ADDITIONAL

National Treasury circular dated 16 March 2004 paragraph 50 refers

i. *Statutory commitments*

The following creditors have been accounted for at 30 June 2008:

SARS- PAYE
SARS- VAT
SARS - SDL
SARS - UIF
Auditor-General- Audit fees
Cape Joint Pension Fund - Contributions
Cape Joint Retirement Fund- Contributions
SAMWU Provident Fund- Contributions
SALA Pension Fund- Contributions
LAMAF Medical Aid- Contributions
Munimed Medical Aid- Contributions

25. EQUITABLE SHARE (Schedule 3 of DORA)

Grant from National Treasury to the value of R 4,996,305 was received for intergovernmental allocation for free electricity; free basic services.

The grants where received as follows:

a.	July 2007	R 1,665,435
b.	November 2007	R 1,249,076
c.	February 2008	R 2,081,794
		<u>R 4,996,305</u>

These unconditional grants was utilised to grant qualified indigent house with free basic services.

KAROO HOOGLAND MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2008

26. CONDITIONAL ACCOUNTABILITY AND CONTRACTUAL OBLIGATIONS

The municipality had no conditional accountability or contractual obligations as at 30 June 2008.

27. CAPITAL OBLIGATIONS

The municipality had no capital obligations as at 30 June 2008.

28. UNAUTHORISED, WASTEFUL AND FRUITLESS EXPENDITURE

During the 2007/2008 financial year an alleged financial mismanagement were discovered and referred to the South African Police Services for investigation. Indications are that the occurrence relates to the 2006/2007 and 2007/2008 financial years. Total amount under investigation exceeds R 2m.

29. ARREAR ACCOUNTS OF COUNCILLORS

The following councillors had arrear accounts for longer than 90 days at 30 June 2008:

	<u>Total</u> <u>R</u>	<u>Outstanding</u> <u>Less than 90 days</u>	<u>Outstanding</u> <u>more than 90 days</u>
Councillor JK Malho	209.25	209.25	0
Councillor JJJ Storm	2,075.10	444.50	1,630.60
Councillor JJ de Wee	217.15	217.15	0
	<u>2,501.50</u>	<u>870.90</u>	<u>1,630.60</u>

KAROO HOOGLAND MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2008

30. CONTRIBUTIONS FROM LOCAL GOVERNMENT

No contributions were received from organized local government during the financial year.

31. DISCLOSURES

With the implementation of the Municipal Financial Management Act 2003, additional disclosures have been made.

APPENDIX A

KAROO HOOGLAND MUNICIPALITY TRUST FUNDS, TRUST FUNDS, RESERVES AND PROVISIONS 30 JUNE 2008

	Balance At 1/07/2007	Contributions during the year	Interest on investments	Other Income	Expenditure during the year	Balance at 30/06/2008
Statutory Funds	R	R	R	R	R	R
Revolving Fund	2,964,858	0	2,360	1,501	0	2,968,719
Civil Defence Fund	44,507	0	3,452	0	21,252	26,707
Dog Tax Fund	17,829	0	4,635	0	17,829	4,635
	3,027,194	0	10,447	1,501	39,081	3,000,061
Trust Funds						
Housing Fund	80,557	0	6,374	0	0	86,931
Integration Development Fund	30,777	0	91	0	1,143	29,725
	111,334	0	6,465	0	1,143	116,656
Reserves						
General Maintenance Fund	27,206	0	2,097	0	0	29,303
Sport Fund	19,194	0	1,451	0	0	20,645
	46,400	0	3,548	0	0	49,948
Provisions						
Leave Fund	314,692	0	21,342	0	0	336,034
	314,692	0	21,342	0	0	336,034

APPENDIX B

KAROO HOOGLAND MUNICIPALITY EXTERNAL LOANS AND INTERNAL ADVANCES 30 JUNE 2008

	Balance At 1/1/2007	Received during The period	Redeem. written off during the period	Interest paid	Balance at 30/6/08
EXTERNAL LOANS					
Government Loans (Housing)	R 0	R 0	R 0	R	R
DBSA@13.72% (Electricity)	3,387,983	375,127	68,455	190,059	0 3,694,655
INTERNAL ADVANCES AND LOAN SERVICES					
Revolving Fund	336,389	0	0	0	336,389
TOTAL	3,734,472	375,127	68,455	190,059	4,031,044

Note:

Existing external loans financed by DBSA at 5% have to be redeemed by 31 December 2026.

	Budget	Balance at 1 July 2007	Expenditure	Redeemed Written-off Transferred	2008 Balance at 30 June 2008
RATES AND GENERAL		6,658,084	1,205,734	0	7,863,818
Community Services	0	4,334,526	0	0	4,334,526
Commonage	0	1,160,860	0	0	1,160,860
Furniture and Equipment	0	201,059	0	0	201,059
Council General	0	1,316,012	0	0	1,316,012
Administration	0	161,167	0	0	161,167
Health Services	0	13,411	0	0	13,411
Corporate Services	0	280,334	0	0	280,334
Public Works	0	1,191,119	0	0	1,191,119
Town Planning	0	10,564	0	0	10,564
Subsidized Services	0	1,684,413	0	0	1,684,413
Municipal Buildings	0	812,153	0	0	812,153
Library	0	116,131	0	0	116,131
Civic Buildings	0	260,612	0	0	260,612
Land	0	79,127	0	0	79,127
Improvements	0	29,106	0	0	29,106
Museum	0	3,273	0	0	3,273
Parks and Recreation	0	384,011	0	0	384,011
Economical Services	0	639,145	1,205,734	0	1,844,879
Vehicle and equipment	0	151,693	856,905	0	1,008,598
Sanitation	0	284,709	348,829	0	633,538
HOUSING SERVICES	0	0	0	0	0
Sub-economical housing	0	0	0	0	0
TRADING SERVICES	0	11,481,257	712,509	0	12,193,766
Electricity	0	4,885,933	375,127	0	5,261,060
Water	0	6,595,324	337,382	0	6,932,706
Total Fixed Assets		18,139,341	1,918,243	0	20,057,584
<i>Minor: Loans redeemed and other</i>		13,661,079	1,611,572	0	15,272,651
<i>Capital receipts</i>		918,251	68,455	0	986,706
Loans redeemed and advances paid		2,819,252	0	0	2,819,252
Contributions from revenue		214,410	0	0	214,410
Provisions and reserves		9,709,166	1,543,117	0	11,252,283
Grants and subsidies		0	0	0	0
Contributions from the public		0	0	0	0
Net Fixed Assets		4,478,263	306,671	0	4,784,933

KAROO HOOGLAND MUNICIPALITY: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

APPENDIX D

	2007 Actual R		2008 Actual R	2008 Budget R
INCOME				
Government and Provincial Grants and Subsidies	4,471,183		8,749,121	11,280,000
Income from tariffs, service charges, etc.	8,265,066		5,964,369	6,359,000
	<u>14,135,567</u>		<u>14,713,490</u>	<u>17,639,000</u>
EXPENDITURE				
Salaries, Wages and Allowance	8,653,025		8,053,674	8,875,000
General Expenditure	4,698,526		11,825,556	7,350,000
- Electricity Purchases	1,560,889		1,872,082	1,296,000
- Other Expenditure	3,137,637		9,953,475	6,054,000
Maintenance and Repair	2,008,374		1,887,005	892,000
Capital Charges	192,973		258,541	419,000
Capital Outlay	0		0	102,000
Contributions	0		2,303	0
Gross Expenditure	<u>15,552,898</u>			
Less: Departmental Charges	0		0	0
	<u>15,552,898</u>		<u>22,027,079</u>	<u>17,638,000</u>

APPENDIX F

KAROO HOOGLAND MUNICIPALITY: STATISTICAL INFORMATION FOR THE PERIOD ENDING 30 JUNE 2008

1. Population	12,116
2. Valuation	
a. Land Value	1,329,300
b. Improvement value	42,549,632
c. Valuation Date	1 July 1990
3. Number of employees	82
4. Electricity	
a. Number of users	1,021
b. Number units purchased	5,857,684kwh
c. Demand units	14,731 KVA
d. Number units sold	4,548,950kwh
e. Number of units unaccounted	1,308,734kwh
5. Water	
a. Number of users	2,677
b. Number units purchased	0
c. Number units sold	675,158kl
d. Number of units lost	unknown
6. Miscellaneous	
a. Area in hectares	25,809
b. Number of voters	6,118
c. Percentage of votes	86.8%

**REPORT OF THE AUDITOR – GENERAL
ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF KHM
FOR THE YEAR ENDED 30 JUNE 2008**



AUDITOR - GENERAL



**REPORT OF THE AUDITOR-GENERAL
TO THE NORTHERN CAPE
PROVINCIAL LEGISLATURE AND
COUNCIL ON THE FINANCIAL
STATEMENTS AND PERFORMANCE
INFORMATION OF THE
KAROO HOOGLAND MUNICIPALITY
FOR THE YEAR ENDED
30 JUNE 2008**

Accountability

Integrity

Independence

Impartiality



AUDITOR-GENERAL

The Accounting Officer
Karoo-Hoogland Local Municipality
Private Bag X03
Williston
8920

12 December 2008

Reference: 21338REG07/08

Dear Mr L Nothnagel

Report of the Auditor-General on the financial statements and performance information of Karoo-Hoogland local municipality for the year ended 30 June 2008.

The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMFA).

In terms of sections 121(3) and 127(2) of the MFMFA municipalities have to include the audit report in the municipality's annual report for tabling within seven months after the end of the financial year.

Until tabled as required by section 127(2) the report is **not a public document** and should therefore be treated as **confidential**.

As your municipality/municipal entity will be responsible for publishing the attached audit report as part of the annual report, you are required to do the following:

- Submit the final printer's proof of the annual report (which includes the audit report) to the relevant audit manager of the Auditor-General for verification of the audit-related references before it is printed or copied. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

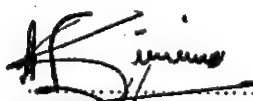
Please notify the undersigned Business Executive well in advance of the date on which the audit report, or the annual report containing this audit report, will be tabled at the municipality.

Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



Business Executive: Northern Cape

Enquiries: KA Mogamisi/A Cloete
Telephone: (053) 831 1016
Fax: (053) 833 3231
Email: kagishom@agsa.co.za/arnoc@agsa.co.za

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF THE KAROO HOOGLAND MUNICIPALITY FOR
THE YEAR ENDED 30 JUNE 2008**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Karoo Hoogland Municipality which comprise the balance sheet as at 30 June 2008, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 02 to 17.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DORA). This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Because of the matter discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of accounting

4. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1 to the financial statements.

Basis for disclaimer of opinion

Commitments

5. Due to the lack of a proper system to account for commitments, no commitments were disclosed in the financial statements. Commitments amounting to R 4 123 277 were identified, resulting in commitments being understated by at least R 4 123 277.

Statutory funds

6. It was verified during the system description and investigation of the financial statements that the municipality did not comply with Ordinance 20 of 1974 to make a contribution every year towards the statutory funds of the municipality amounting to R 152 738 and therefore the item Statutory funds is understated by R 152 738.

Cash and cash equivalents

7. Due to the lack of a proper system to account for cash and cash equivalents, I was unable to obtain sufficient appropriate audit evidence regarding the accuracy, classification and occurrence of unusual journal entries in the bank accounts amounting to R 958 393. The entity's records did not permit the application of alternative audit procedures regarding cash and cash equivalents.
8. The cash book balance disclosed in the financial statements of R 134 412 differed from the actual cash book amount recalculated as R 111 595, resulting in the cash book balance being overstated by R 22 818. Furthermore, the reconciling items consisting of an outstanding cheque of R 30 693 and an outstanding receipt of R 7 875 were not taken into account on the municipality's bank reconciliation. Consequently, I was unable to confirm the valuation of and rights and obligations relating to the cash book balance and the completeness and valuation of the bank reconciliations.

Employee cost

9. I was unable to obtain sufficient appropriate audit evidence regarding the occurrence, accuracy and classification of non-routine journals amounting to R 1 155 666. The entity's records did not permit the application of alternative audit procedures regarding the non-routine journals.
10. Honorariums amounting to R 88 000 were paid to employees, but no supporting documentation could be obtained for audit purposes. Consequently, I could not confirm the occurrence, accuracy and classification of the expenditure. The entity's records did not permit the application of alternative audit procedures regarding the expenditure.

Leases

11. Due to the lack of a proper system to account for leases, I was unable to obtain the lease agreements. Consequently, I was unable to confirm the occurrence, completeness and accuracy of lease payments amounting to R 186 293. The entity's records did not permit the application of alternative audit procedures regarding leases.

Revenue

12. Management did not declare output VAT amounting to at least R 80 878, resulting in revenue being overstated and output VAT being understated by R 80 878.

13. Due to the lack of a proper system to account for revenue, insufficient supporting documentation was provided for a sample of direct deposits amounting to R 1 301 133. Consequently, I was unable to confirm the accuracy, occurrence and classification of direct deposits. The entity's records did not permit the application of alternative audit procedures regarding the direct deposits.

14. Due to the lack of a proper system to account for revenue, no supporting documentation could be obtained for a sample of revenue journals amounting to R 371 883. Consequently, I was unable to confirm the accuracy, classification and occurrence of revenue. The entity's records did not permit the application of alternative procedures regarding the revenue journals.

15. Due to the lack of a proper system to account for receipts, receipts issued for the year amounting to R 802 118 were not provided for audit purposes. Consequently, I was unable to confirm the occurrence, completeness, classification and accuracy of receipts issued for the year. The entity's records did not permit the application of alternative procedures regarding receipts.

Expenditure

16. Due to the lack of a proper system to account for expenditure, expenditure amounting to R 631 016 could not be substantiated with supporting documentation in the form of supplier invoices or statements. Consequently, I was unable to confirm the occurrence, classification and accuracy of expenditure in the financial statements. Furthermore, expenditure amounting to R 282 588 was not properly authorised by a senior official. The entity's records did not permit the application of alternative procedures regarding expenditure.

17. The municipality did not claim input VAT amounting to at least R 158 181 on expenditure, resulting in expenditure being overstated and input VAT being understated by R 158 181.

Irregular expenditure

18. The municipality did not comply with the supply chain management policy for expenses amounting to R 1 194 502. No evidence could be submitted to indicate that the formal process of evaluation of quotations, tenders and bids was performed. This expenditure thus constitutes irregular expenditure in terms of section 1 of the MFMA, resulting in irregular expenditure as disclosed in note 28 to the financial statements being understated by this amount.

Unauthorised expenditure

19. I have compared the budgeted expenditure with the actual expenditure per the financial statements and found that various line items were overexpensed. I was unable to obtain any supporting evidence that these overexpenditures had been approved and authorised by means of an adjustment budget or by submission for

authorisation to Council. This resulted in unauthorised expenditure amounting to R 5 154 023 being incurred by the municipality.

Creditors

20. Due to the lack of a proper system to account for creditors, no supporting documentation could be obtained for creditors amounting to R 2 297 726. Furthermore, I was unable to obtain explanations or supporting documentation for non-routine journals amounting to R 567 627 included in creditors. Consequently, I was unable to confirm the valuation, rights and obligations and existence of the creditors. The entity's records did not permit the application of alternative audit procedures regarding creditors.
21. Included in the balance of trade creditors was an amount of R 148 297 that related to payroll transactions that should have been included in the payroll suspense account as well as an amount of R 51 945 in respect of the short-term portion of the long-term loan. Trade creditors were therefore overstated by an amount of R 200 242; the payroll suspense account understated by R 148 297 and the short-term portion understated by an amount of R 51 945 at year-end.
22. Unspent conditional grants amounting to R 927 271 as disclosed under creditors in note 12 to the financial statements were not transferred from the primary bank account to a separate bank account as required by the MFMA. The primary bank account was also in an overdraft of R 543 829, thus it was concluded that the unspent conditional grant was not supported with concomitant assets. It was therefore clear that the grant had been utilised for other purposes, as there was no cash available to support the existence of these unspent grants at year-end. Furthermore it was confirmed that the municipality did not comply with the requirements of section 28 of the DoRA, which states that any conditional allocation not spent at year-end should be paid back to the National Revenue Fund.

Fixed assets

23. The completeness, existence and valuation of and rights and obligations relating to fixed assets of R 20 057 584 as disclosed in the balance sheet and Appendix C could not be confirmed, as the municipality did not maintain a fixed asset register. The entity's records did not permit the application of alternative audit procedures regarding fixed assets.
24. IMFO guidelines regarding assets require that total assets should be equal to the total amount of long-term liabilities disclosed in the financial statements. No explanations could be obtained from management for the difference of R 1 144 115 that existed between the total assets and the total amount of loans at year-end.
25. Due to the lack of a proper system to account for fixed assets, no supporting documentation could be obtained to substantiate the acquisition of fixed assets amounting to R 172 051. Consequently I was unable to confirm the existence and valuation of and rights and obligations relating to the fixed assets. The entity's records did not permit the application of alternative audit procedures regarding fixed assets.

Long-term loans

26. IMFO guidelines regarding long-term loans require that for long-term loans disclosed in the balance sheet a note should be included with a breakdown of the latter. The security over the loan amount should also be included in the note; however, through careful examination it was noted that the municipality did not comply with the above regulations.

Reserves

27. I was unable to obtain any evidence that journals in the accumulated surplus/deficit balance with a net value of R1 094 740 had been authorised by a senior employee before it was processed. Furthermore, no supporting documentation was attached to these journals and no proper description was provided for the prior year adjusting journals. Consequently, I was unable to confirm the accuracy, completeness and occurrence of transactions in respect of reserves. The entity's records did not permit the application of alternative audit procedures regarding the journals.

Value-added tax (VAT)

28. Due to a lack of a proper system to account for VAT, the input VAT amounted to R 34 927 and the output VAT amounted to R 1 183 400 per the general ledger, while the input VAT amounted to R 1 045 943 and the output VAT to R 542 736 per the VAT 201's, leading to a total unexplained difference of R 1 651 680, resulting in the VAT balance being understated by R 1 651 680. Consequently, the valuation of VAT as disclosed in the financial statements could not be confirmed.

29. The municipality did not maintain a grants register for all grants received from other organs of state, therefore it could not be confirmed whether output VAT was payable on some of these grants. The entity's records did not permit the application of alternative audit procedures regarding the VAT.

Debtors

30. I have recalculated the provision for bad debts and found that the provision may be overstated by R 2 693 970. The provision was therefore overstated, resulting in debtors being understated by approximately R 2 693 970. Consequently, I was unable to confirm the valuation of bad debts and debtors.

Corresponding figures

International Standard on Auditing 710 on comparatives requires the auditor to modify the auditor's report when the matters that gave rise to the prior period modification of the audit report are still unresolved. The prior year audit report contained the following qualification paragraphs that had not been resolved by 30 June 2008:

Description	Amount
Revenue	R2 286 924
Debtors	R1 201 967

Assets	R2 491 505
Creditors	R922 756
Provisions	R2 370 510
Value-added tax (VAT)	R1 603 878
Expenditure	R7 973 762
Funds and reserves	R2 891 010
Employee cost	R8 587 884
Long-term liabilities	R34 795

DISCLAIMER OF OPINION

31. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Karoo Hoogland Municipality. Accordingly, I do not express an opinion on the financial statements.

EMPHASIS OF MATTERS

I draw attention to the following matters:

Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct

32. As disclosed in note 28 to the financial statements, irregular expenditure amounting to R2 000 000 was incurred during this and the previous financial year, as a proper tender process had not been followed by the municipality.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Internal control

33. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Commitments	X		X	X	X
Statutory	X		X	X	X

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Cash and cash equivalents	X		X		X
Employee cost	X		X	X	X
Leases	X		X	X	X
Revenue	X		X	X	X
Expenditure	X		X	X	X
Irregular expenditure	X	X	X	X	X
Unauthorised expenditure	X	X	X	X	X
Creditors	X		X		X
Fixed assets	X		X		X
Long-term liabilities	X		X		X
Reserves	X		X		X
Value-added tax	X		X		X
Debtors	X		X		X

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allow people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Non-compliance with applicable legislation Municipal Finance Management Act (MFMA)

34. The mayor did not table the budget at a council meeting three months before start of the budget year and the council did not consider approval of the budget at least 30 days before year-end, resulting in non-compliance with sections 16(2) and 24(1).
35. The accounting officer did not perform his functions as required by section 81.

36. The senior manager performed his duties to ensure that all financial related issues were attended to as required by section 78(1).
37. The municipality does not have an official website on which all the financially related information is displayed as required by section 21(A) of the Municipal Systems Act and section 75(2).
38. The accounting officer did not perform his duties with regards to budget and performance assessment as prescribed in section 72.
39. The accounting officer did not inform the provincial treasury, in writing, of the non-compliance with the SCM policy as prescribed by section 73.
40. The municipality did not compile and table an annual report for the 2006-07 book year, resulting in non-compliance with section 127(2).
41. Through inspection of the council minutes it was confirmed that the municipal council did not perform the activities as required by section 133(1).
42. The accounting officer did not perform his duties with regards to a service delivery and budget implementation plan for the budget year and drafts of the annual performance agreements as required by section 69.
43. The municipality did not disclose non-compliance with the MFMA as required by section 125(2)(e) in the annual financial statements.
44. The municipality did not submit any quarterly reports as required by section 127 and furthermore it was identified that the municipality did not table and submit an annual report for the previous book year.
45. Contrary to section 166 it was noted that the municipality did not have an internal audit department and neither did they have an audit committee in operation for the period under review.
46. The municipality had not adopted and implemented a fraud prevention plan to ensure that there were sufficient and effective enough controls in place to prevent and detect any exceptional circumstances that might need management attention as required by section 165(2) of the MFMA.

Municipal Systems Act 32 of 2000 (MSA)

47. The municipality did not develop and adopt appropriate systems and procedures to ensure fair, efficient, effective and transparent personnel administration as required by section 67 of the Act.
48. The municipality did not have a performance information system in place for section 57 employees as required by section 57(1)(b).
49. The municipality did not adopt and implement a tariff policy on the levying of fees which is required by section 74.
50. The municipality did not establish a performance management system as required by section 38.

Non-compliance with the Supply Chain Management Regulations

51. In terms of Supply Chain Management Regulation 43, for expenditure incurred above R15 000, the municipality should for every new supplier used, ensure that an inspection is done regarding the supplier's tax status at SARS. Based on the latter, expenditure amounting to R3 007 448 was incurred and no supporting evidence could be obtained to ensure that the required inspection was done.

Matters of governance

52. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance		Yes	No
Audit committee			
• The municipality had an audit committee in operation throughout the financial year.		X	
• The audit committee operates in accordance with approved, written terms of reference.		X	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		X	
Internal audit			
• The municipality had an internal audit function in operation throughout the financial year.		X	
• The internal audit function operates in terms of an approved internal audit plan.		X	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X	
Other matters of governance			
The annual financial statements were submitted for audit as per the legislated deadlines (section 126 of the MFMA for municipalities and municipal entities).		X	
The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		X	
The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X	
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X	
The prior year's external audit recommendations have been substantially implemented.		X	
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)			
The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.		X	
The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.		X	

Matter of governance	Yes	No
The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.		X

Unaudited supplementary schedules

53. The supplementary schedules as set out in Appendices A to F do not form part of the financial statements and are presented as additional information. I have not audited these schedules and, accordingly, do not express an opinion on them.

OTHER REPORTING RESPONSIBILITIES

Report on performance information

54. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

55. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

56. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
57. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
58. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

59. No reporting of performance information

The annual report of Karoo Hoogland Municipality did not include the annual performance report reflecting the performance of the municipality and each of the service providers of the municipality in terms of section 46 of the MSA, as required by section 121(3) of the MFMA.

60. The municipality did not establish a mechanism to monitor and review its performance management system and the municipality did not involve the local community in the development, implementation and review of the municipality's performance management system as required by sections 40 and 42 of the Municipal Systems Act.

APPRECIATION
61. The assistance rendered by the staff of the Karoo Hoogland Municipality during the audit is sincerely appreciated.

John - General

Kimberley

12 December 2008



AUDITOR - GENERAL